

# **ECONOMIC CRISIS AMID PANDEMIC**

**By**

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## **INTRODUCTION**

Economic crisis are financial crisis which is triggered by a situation in which some financial assets suddenly lose a large part of their nominal value and this time the situation has been driven by a pandemic, Corona Virus. Pandemic is a disease that spreads over a whole country or the whole world. A long history of pandemic and humans exist. The humans are the key factor of their own loses, and same can be seen in the pandemic cases. These pandemic not only affects humans health but also creates economic crisis.

## **History**

Disease and illness have destroyed the humanity since the earliest days and this is the major flaw of humanity<sup>1</sup>. However, the scenario was different until the marked shifted to agrarian communities and the scale and spread of these diseases increased gradually. Prevalent trade has created new opportunities for human being and animal interactions that sped up such epidemics, the humans are the cause of such epidemic. Tuberculosis, Malaria, Leprosy, Smallpox, Influenza and others first appeared during these early years. Gradually the advanced civilized cities were established because of which more exotic and expansive trade routes, and increased contact with different populations of people, animals, and ecosystems and this connectivity leads to pandemics.

The outbreak of a pandemic is always coincided with severe global financial downturn<sup>2</sup>. People die to protect them social distancing or other necessary measures are taken which directly impact economy. business and industries are shut down, oil prices are low, stock market crush, joblessness create and economic crisis occur .pandemics effect intensity differs , whether it is going to create crisis or recession.

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<sup>1</sup>A Visual History of Pandemics /World Economic Forum- <https://www.weforum.org/>

<sup>2</sup>OECD Report - <https://www.oecd.org/competition/publicationsdocuments/reports/>

The examples of pandemics – HIV, SWINE FLU, SARS, EBOLA, MERS, CORONAVIRUS.

Today the same problem of pandemic arises in the form of Corona Virus, arising from Wuhan of China.

The COVID -19 outbreak was declared a public health emergency of International concern by the WHO on 30<sup>th</sup> January 2020<sup>3</sup>. According to recommendations by the world health organization, the diagnosis of COVID-19 must be confirmed by the Real Time- Polymerase Chain Reaction (PCR-PCR) or gene sequencing for respiratory or blood specimens, as the key indicator for hospitalization. To contain the spread of COVID-19 Corona Virus UN's central emergency releases the fund of \$15 million dollars. This fund is particularly for the vulnerable countries with weak health care system. The world's economy could grow at its slowest rate since 2009 this year due to the Corona Virus outbreak, according to organization for economic cooperation and development (OECD).the Corona Virus crisis is creating a terrible high toll on human being lives across Asia, where the number of infection and deaths are continuing to climb. But along with the negative and tragic human impact, analysts has warn that the economic cost could threaten the world economy after it has a bright start to Asia's after year of the rat. The OECD has forecast growth of just 2.4%in 2020, down from 2.9% in November 2019 amid Corona Virus pandemic people are staying in home to protect themselves, a therefore industries and businesses are closed.

### **Will World is going to face recession worse than the great depression?**

The IMF described the global decline as the worst since the Great Depression of the 1930s<sup>4</sup>. The IMF also agrees that the pandemic had plunged the world into a "crisis like no other". This prolonged outbreak is going to test the ability and efficiency of all the governments and central banks, and therefore amid the crisis the government has to take better decisions.

Gita Goliath, the IMF's chief economist, said the crisis could knock \$9 trillion (£7.2 trillion) off global GDP over the next two years.

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<sup>3</sup>World Health Organization - <https://www.who.int/>

<sup>4</sup>IMF report <https://www.imf.org/external/index.htm>

World Economic Outlook, it said no country would escape the downturn. It expects global growth to rebound to 5.8% next year if the pandemic fades in the second half of 2020<sup>5</sup>.

OECD has stated that world economy is at risk<sup>6</sup>. Global economic prospects remain subdued and very uncertain due to the Corona Virus outbreak. Analyzing the experience of China, the distribution of cases in other countries. This estimates of higher risks to global supply chains, and a large-scale model of the global economy. It is also showing its concern that this pandemic can bring global economy \$2.7 trillion.

The review tells that there is signals that show that market is failing, and tending towards recession. It also tells that there is no single number that credibly captures or foresees Covid-19's economic impact<sup>7</sup>. Therefore it is important that, we take a careful look at market indicators across asset classes, recession and the recovery, as well as the background of epidemics, to obtain insights into the path ahead. The impact of Corona Virus on stock markets, joblessness. It also shares satellite images which show pollution clear environment amid lockdown all over the world<sup>8</sup>.

The Corona Virus outbreak has become one of the major threats to the world economy and financial markets. The major institutions and banks that have forecasted the global economy have cut their forecasts among these institutions and banks the Organization for Economic Co-operation and Development being one of the latest to do so. Amid the pandemic, fears of the Corona Virus impact on the world economy have rocked markets worldwide, with stock prices crashing and bond yields plunging. To make things worse the virus is spreading in the countries like Italy, South Korea, Spain, Brazil, India, and USA.

**BEN MAY** (head of global macro research at oxford economics) – ‘From an economic perspective, the key issue is not just the number of cases of COVID-19, but the level of disruption to economics from containment measures’. And this the first time since the Great Depression, both developed and developing economies were expected to fall into recession. The

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<sup>5</sup>World Economic Outlook – IMF(<https://www.imf.org/external/index.htm>)

<sup>6</sup>OECD Report- <https://www.oecd.org/competition/publicationsdocuments/reports/>

<sup>7</sup>What Corona Could Mean To Global Economy- Harvard Business Review

<sup>8</sup>Coronavirus : A visual guide to the economic impact.-BBC

IMF warned that growth in advanced economies would not get back to its pre- pandemic peak until at least till 2022.

## Global economic growth slowdown

The Organisation for Economic Co-operation and Development (OECD) downgraded its 2020 real GDP growth projections for almost all economies

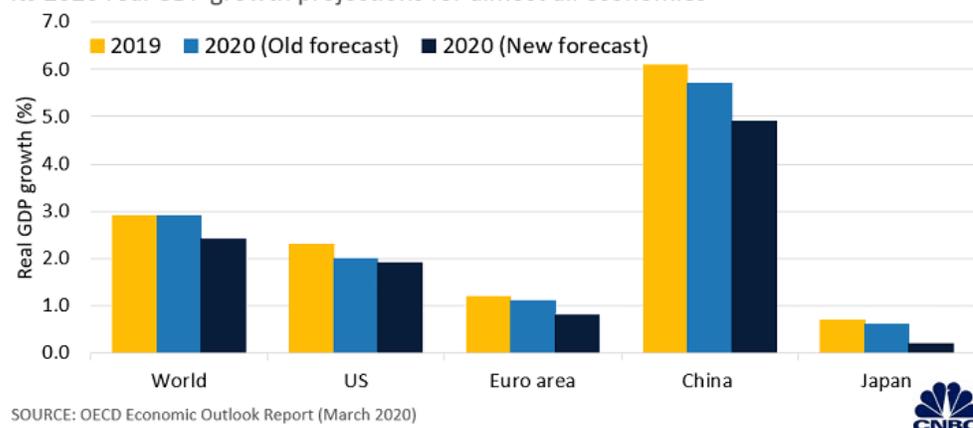


FIGURE -1, OECD Economic Outlook Report<sup>9</sup>.

In the whole world, be it slowdown in manufacturing activity, services contraction, declining in oil prices, falling of stock market. The world economy is collapsing and thus to cure this pandemic is highly needed. Now when the major countries who has their biggest contribution in global economy are collapsing each country will see its repercussion. Those countries which will be unharmed from the pandemic will also face the repercussion of collapsing of world economy. No doubt that the market is collapsing and we are tending towards recession, the question is the recession will be worst then the 1929 great depression.

## MEASURES FOR RECOVERY AND GROWTH

The longer lockdowns will constrain the economic activities in the market, and therefore quarantines and social distancing measures were vital<sup>10</sup>. The Upfront containment measures are

<sup>9</sup>Corona Virus impact on global economy, financial markets in 6 charts- CNBC

<sup>10</sup>International Monetary Fund -<https://www.imf.org/external/index.htm>)

essential to decrease the speed of Corona Virus and thus allow the Medicare systems to cope up and help to pave the way for the recovery and more robust resumption of economic activity. In the scenarios where the social distancing is not followed properly, uncertainty and reduced demand for services could be get even worse.

- The **IMF** has set out four priorities for dealing with the pandemic.

The organization called for more money from different countries for health care systems, financial support for workers and businesses. So it can continue the central bank support and a clear exit plan for the recovery. It is a need of the hour that the world works in collaboration, so they can find and distribute treatments and a vaccine. The organization also added that many developing nations would need debt relief in the coming months and years, because of the prolonged outbreak.

The Corona Virus (COVID-19) outbreak has already brought considerable human suffering and major economic disruption<sup>11</sup>.

- **Growth prospects remain highly uncertain**

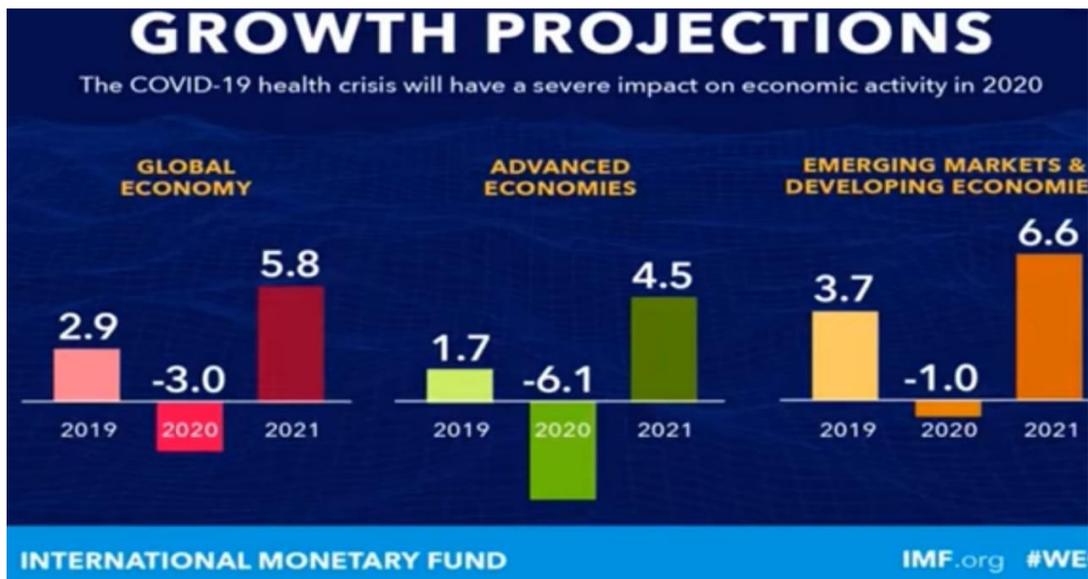


FIGURE -2, International Monetary Fund<sup>12</sup>.

<sup>11</sup>CORONAVIRUS: The world economy at risk- OECD

The assumption that was made that the epidemic peaks in China in the first quarter of 2020 and outbreaks in other countries prove mild and contained, global growth could be lowered by around -3.0 percentage point in the 2020 Economic Outlook. The annual global GDP growth is estimated to drop to 2.4% in 2020 as a whole, from an already weak 2.9% in 2019, with growth possibly even being negative in the first quarter of 2020. Prospects for China have been revised markedly, with growth slipping below 5% this year, before recovering to over 6% in 2021, as output returns gradually to the levels projected before the outbreak. The adverse impact on the financial markets and the travel sector and disturbance in the supply chains causes all G20 economies in 2020 to slower down. Particularly those G-20 countries which are strongly interconnected to China, such as Japan, Korea and Australia. Provided the effects of the virus outbreak fade as assumed, the impact on confidence and incomes of well-targeted policy actions in the most exposed economies could help global GDP growth recover to 5.8 per cent in 2021. The Corona Virus outbreak is spreading widely throughout the Asia Pacific region, North America and Europe which would ultimately weaken the prospects considerably. In this event, global growth could drop to -3.0 per cent in 2020, half the rate projected prior to the virus outbreak.

Governments need to ensure effective and well-resourced public health measures to prevent infection and contagion, and implement well-targeted policies to support health care systems and workers, and protect the incomes of vulnerable social groups and businesses during the virus outbreak. To restore the confidence, the supportive macroeconomic policies can help and aid the recovery of demand by the time virus outbreaks ease, but yes it cannot counterbalance the immediate interference that result from enforced shutdowns and travel restrictions. If downside risks materialize, and growth appears set to be much weaker for an extended period, coordinated multilateral actions to ensure effective health policies, containment and mitigation measures, support low-income economies, and jointly raise fiscal spending would be the most effective means of restoring confidence and supporting incomes.

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<sup>12</sup> International Monetary Fund- <https://www.imf.org/>

## What is the Likely Recovery Path?

It is a big question that economies can avoid the recession or not, the path to get back to growth under Covid-19 will depend on a range of drivers, such as the level to which demand will be foregone or delayed, whether the shock of the pandemic is truly a spike or lasts. And there can also be structural damage, among other factors. The reasonable scenarios that can be drawn are described as V-U-L<sup>13</sup>.

- **V-shaped:** The scenario, V shape describes the “classic” real economy shock, a shift can happen in output, but growth eventually rebounds. In this scenario, the annual growth rates could fully absorb the shock. Though it may seem optimistic amid today’s darkness, we think it is plausible.
- **U-shaped:** This scenario is the ugly sibling of V the shock persists, and while the initial growth path is resumed and there is some permanent loss of output. Is this plausible for Covid-19? Absolutely, but we’d want to see more evidence of the virus’ actual damage to make this the base of the case.
- **L-shaped:** This scenario has very ugly relation with U and V. For understanding this scenario, you’d have to believe that Covid-19 has the ability to do significant structural damage, i.e. breaking something on the economy’s supply side, it can be the labor market, the productivity function or the capital formation. This is tough to imagine even with optimistic assumptions. Because at some point are going to be on the other side of this epidemic.

It is important to look back at history to know the potential impact path of Covid-19 empirically. In fact, V-shapes monopolies in a way that the major epidemics has followed the V scenario the examples of which is, 1968 H3N2 (“Hong Kong”) flu, 1958 H2N2 (“Asian”) flu, and 1918 Spanish flu. To know the recovery path is very important step to know in what way we are going to come back from such crisis. Measures of recovery and growth are highly uncertain able it is not wrong to say that approaches are made to overcome from this pandemic. But this time the process, the impact, the pattern of spreading is all different and so the solution is. For recovery and growth,

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<sup>13</sup>What Corona Virus Could Mean To The Global Economy- Harvard Business Review.

precaution should be taken in reasonable manner. It should not be forgotten to detect the recovery path and to stabilize growth the stabilization is very important, so at the basic this should be handle first. This time the major issue is that we are not able to get stabilize the situation, the virus is spreading at very fast speed, because if any of the country take this pandemic carelessly, the whole world is going to suffer.

### **INDIA'S ROLE AMID THE CORONA PANDEMIC.**

The UN has considered the role of INDIA in this fight and expressed solidarity with India in the fight against Corona Virus<sup>14</sup>. Praising India for nationwide lockdown as a "comprehensive and robust" response to the raging COVID-19 pandemic. It is important to know that being 2<sup>nd</sup> most populous country, it was a task for India to fight against corona. Right now the India is trying to protect its citizen, taking all necessary measures. The prior lockdown is lauded by many countries and organization. Also internationally the help that India is giving by providing medicine hydroxychloroquine to use and Israel is a matter of praise. Today the major problem that world is facing that they fail in taking prior precaution and now the situation is that countries like USA re also not able to control the spread of this virus.

**WHO**, Praises PM Modi's efforts to contain Coronavirus; says 'India can do it'<sup>15</sup>. At one side the whole world is criticizing china for its careless act, and at the other side praising India for its efforts. USA, MALDIVES, ISRAEL etc., are praising India for its help. Right now in such economic crisis it is important that countries support each other and India is performing its role efficiently. In history of pandemics India always plays a significant role, and efficiently protect its people from pandemic. Now this the time when India can set another example to the whole world and to its people also. For INDIA greatest emergency since independence.

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<sup>14</sup>United Nation- <https://www.un.org/en/>

<sup>15</sup>World Health Organization-<https://www.who.int/>

## CONCLUSION

This time the effect of pandemic is massive and destructive as compared to others pandemic effect. Because of the mutation of virus we have found at least three variant now –A, B, C. Whereas Variant- A is most closely related to the virus found in both bats and pangolins, can be described as “the root of the outbreak”. Variant - B , derived from ‘A’, separated by two mutation , then ‘C’ is in turn a daughter of ‘B’. The location of the ‘Bavarian to east Asia could result from a ‘founder effect ‘. Therefore this time it is difficult to form a vaccine of corona because of different mutation process that varies in different parts of the world, for various reasons. Till the vaccine is not made, countries have implemented unprecedentedly stringent restriction, including lockdown of cities and regions under which production activities, except for those essential to the survival of citizens, are shut down. And these measures are necessary to be implemented, so that the death toll kept in control. Lockdown of cities and regions are apparently associated with substantial economic losses. What often receives little attention is the fact that because economies in the world are now closely connected with each other through global value chains, the negative effect of the economic restrictions can diffuse across economics through the network. When we consider the economic impact of a lockdown, we therefore need to take this propagation to other economics into account.

But now it is more important to deal with the situation that is prevailing globally in the form of following economies be it the major economies like USA and EUROPEAN countries or developing economies like INDIA and china. We have to ensure that the poor who are prevented from working for longer periods can survive. For combating the prevailing crisis government has to ensure basic foods and health care facilities .also the sovereign gold bond scheme, GDP link bonds, emergency basic income for poor household can be the efficient ways to get the economy back on track and also give a basic minimum support to the people. Corona Virus is the biggest and the most threatening pandemic which makes major countries to bow down. The pandemic has created an environment of chaos, an environment of panic and also created a situation which force countries leaders to think that they are about to fail if right decision is not taken at the right time. Now the corona is reviving in the countries again without any systems, this is the major threat that countries are facing. It is very uncertain to tell that virus containment and economic

support policies will work at what extent, the behavior of private sector will also decide, whether private sector will able to revive the economy or not.

Also we are seeing the trend of de globalization, problems like USA and China trade war which are going to stand negatively in coping COVID-19 issue. As the problem is not country specific the need of the hour is to stand together on a global level and find the solution to save the 9 billion people living on the planet. As rightly quoted by the IMF report 'world economic outlook 2020'—coronavirus knows no border .so the solution must be international.